

Trust

Alaska Mental Health
Trust Authority

**Resource Management Committee
Quarterly Meeting
January 4th, 2018**

Agenda

Meeting Agenda



Meeting: Resource Management Committee
Date: January 4th, 2018
Time: 12:45pm – 2:45pm
Location: Trust Authority Building
3745 Community Park Loop, Anchorage
Teleconference: (b) (6) / Meeting Number: (b) (6) # / Attendee Number: #
(b) (6)
Trustees: Carlton Smith (Chair), Chris Cooke, Laraine Derr, Paula Easley, Greg Jones, Mary Jane Michael, Jerome Selby

Thursday, January 4th, 2018

Announcements

Approval of Agenda

Approval of Minutes

- 2017-10-26

1. Executive Director Report
2. Consultation
 - a. AMHT-USFS Land Exchange – MHT 9100589 (Item A)
 - b. Donlin Gold, LLC – Conservation Purchase – MHT 9200688 (Item B)
3. Other
4. Adjourn

Item A



To: Carlton Smith, Chair
Resource Management Committee
From: Aaron O'Quinn
Date: 1/4/2018
Re: AMHT-USFS Land Exchange, MHT 9100589
Fiscal Year: 2018

Consultation

Proposed RMC Motion:

"The Resource Management Committee recommends that the Alaska Mental Health Trust Authority board of trustees concurs with the Executive Director of the Trust Land Office's decision that the land exchange contemplated by the Alaska Mental Health Land Exchange Act of 2017 is in the best interests of the Trust, as required by 22 SLA 17, Section 6 (a)(2)."

Background:

Revenue Projections:	Principal	\$34,000,000 (up to)
	Income	\$ 6,000,000 (up to)

Transaction/Resource: The Trust Land Office (TLO) will proceed to complete work and procedural steps required to complete the land exchange with the U.S. Forest Service as outlined in the Alaska Mental Health Land Exchange Act of 2017 (The Act). The TLO will proceed with the best interest decision (BID) process, as required in 22 SLA 17 Sec (6)(a)(2) to dispose of trust land through an exchange in order to complete Phase 1 of the exchange by May 2018.

Property Description/Acreage/MH Parcel(s): Properties to be exchanged are to be based on a value for value appraisal and are outlined on attached maps referenced in The Act. The Act refers to 7 parcels of "federal" land (maps 7 to 9) comprising of approximately **20,580 acres**. The Act refers to Trust lands as "non-federal" land comprised of approximately **18,258 acres** in 20 parcels depicted on maps 1 to 6 and map 10.

General Background: The TLO and the AMHT have been engaged with the US Forest Service since 2005 to reduce conflicts with SE Alaska Communities from timber harvest while providing timber resources to the SE Alaska timber industry in an effort to ensure that AMHT timber resources are monetized consistent with the AMHTA's fiduciary duty to beneficiaries. The Alaska Mental Health Exchange Act of 2017 and its complimentary State of Alaska legislation, 22 SLA 17, was the culmination of years of collaboration between the USFS, the timber industry, environmental and conservation organizations, SE Communities, State of Alaska, and other concerned stakeholders. The resulting Acts instructs the USFS to exchange about 20,580 acres of federal land in a value for value exchange (by

appraisal) for 18,258 acres of AMHT lands. The final acreage will be determined by equalization set forth within the legislation and parcel adjustment through a predetermined sequence. There may be a cash equalization when it is determined to be prudent.

In 2013 the Board of Trustees appropriated \$3 Million Dollars to execute a land exchange with the U.S. Forest Service. The Trustees increased the allocation an additional \$3+ million this year. The TLO has positioned the land exchange to preserve the value of its timber assets. This exchange will also preserve the existing timber industry in Southeast Alaska—maintain existing infrastructure and markets and thereby strengthening viable customers who will purchase trust timber assets in the foreseeable future. The consultation stated, “making this funding available will allow the TLO to take advantage of the congressional support and potential alignment of the national forest plans toward addressing “Sustainable Forestry in Southeast Alaska” with this important initiative”.

It has been recognized since 2007 that for a successful land exchange to occur, a direct link to the preservation of the existing timber industry in SE Alaska was critical. A signing ceremony for SB 88 was held in Ketchikan on August 10, 2017, attended by Senator Murkowski, Governor Walker, State Senator Stedman and Representative Ortiz. “This is an opportunity to help the Alaska Mental Health Trust as they seek to provide for the most vulnerable in our state,” Murkowski said. “Because of this exchange, we have protected viewshed, we have allowed for support for our timber industry because of the exchange and again, provided a valuable resource to the Alaska Mental Health Trust.

SB 88 (enacted as 22 SLA 17) requires that the Alaska Mental Health Trust Land Exchange Act of 2017 be enacted into law, that the Executive Director of the TLO finds the exchange to be in the best interest of the Trust, and that the board of trustees approve the exchange with certification of these three requirements in writing from the chair of the board of trustees before SB 88 becomes effective. The purpose of this consultation is to initiate those steps so that SB 88 will be an enforceable law by the first exchange deadline of May 5, 2018.

Anticipated Revenues/Benefits: The initial timber sales are expected to provide a minimum of \$40 million in revenue. The TLO has determined that the land exchange will position the AMHT to monetize assets which are not currently developable due to economic or political considerations. The repositioning of the Trust timber portfolio will allow for sustainable timber harvests in perpetuity. The Trust’s SE Alaska timber lands will be consolidated in to 3 areas (Icy Bay, Prince of Wales Island, and Ketchikan) totaling over 50,000 acres. These areas have established road systems and are generally recognized as timber production. The annual revenue from the 12 to 16 mmbf ASQ (annual sale quantity) should be around \$2 million depending on markets. The lands the Trust will acquire from the exchange may also have future value through development of residential, recreational, and hydroelectric projects.

Anticipated Risks/Concerns: The primary risk is that the Forest Service will fail to fulfill their obligation to follow the legislation as written specifically to meet the timelines set forth. The TLO has been working to provide all requested information for title, survey and appraisal items. The required reports dealing with threatened and endangered species, cultural and historic resources, wetlands,

and hazardous materials are in process. There are currently unresolved procedures for handling title exceptions and the methodology of mitigation and identification of cultural and historical resources, but the USFS and TLO are working cooperatively to reach a resolution. It is believed that with due diligence these issues can be resolved and the exchange can happen on schedule.

Project Costs: Up to \$6.2 million, however, the Trustees have instructed the TLO to cut these costs where possible. The TLO is working with the USFS to ensure prudent cost saving measures are being instituted.

Other Considerations: This land exchange has been pursued by the TLO, the AMHT, and the Alaska Congressional Delegation for almost a decade. Past efforts to complete an exchange through US Forest Service administrative processes were unsuccessful. Moreover, the administrative process was expected to take longer and incur higher cost with more uncertainty.

ALTERNATIVES

Do Nothing: This alternative assumes that the Trusts current holdings can be monetized through alternatives other than timber harvest. This has proven to be difficult to produce revenues from these lands. The communities of SE Alaska have supported the exchange and believe the Trust will follow through with the process.

Alternate Development: Due to the character and location, the various parcels do not lend themselves to cost-effective development opportunities that would produce a return to The Trust comparable to a commercial timber harvest. The TLO and Trust have experienced significant pressure from the public and communities to proceed with the exchange.

Proposed Alternative: This alternative will provide The Trust with significant revenue upon completion. The land exchange will provide significant restructuring of the Trust timber asset base and assist in diversifying the Trust asset portfolio. The new lands are expected to be managed primarily as timber lands with expected long term revenues from sustainable yield.

Consistency with the Resource Management Strategy: The proposal is consistent with the “Resource Management Strategy for Trust Land” (RMS), which was adopted January 2016 in consultation with the Trust and provides for long-term sustainable management of timberlands.

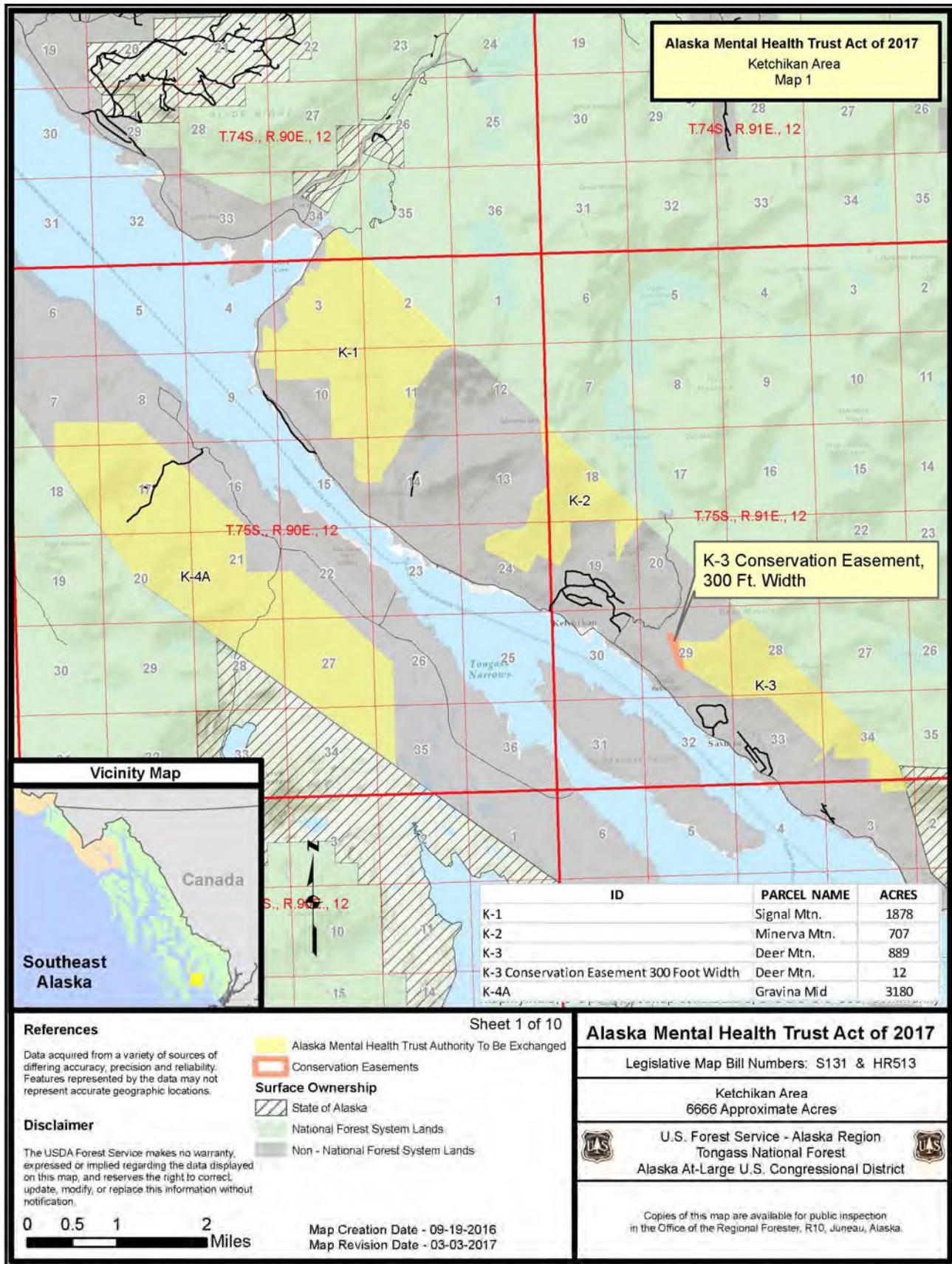
Trust Land Office Recommendation: Proceed with the proposed land exchange BID.

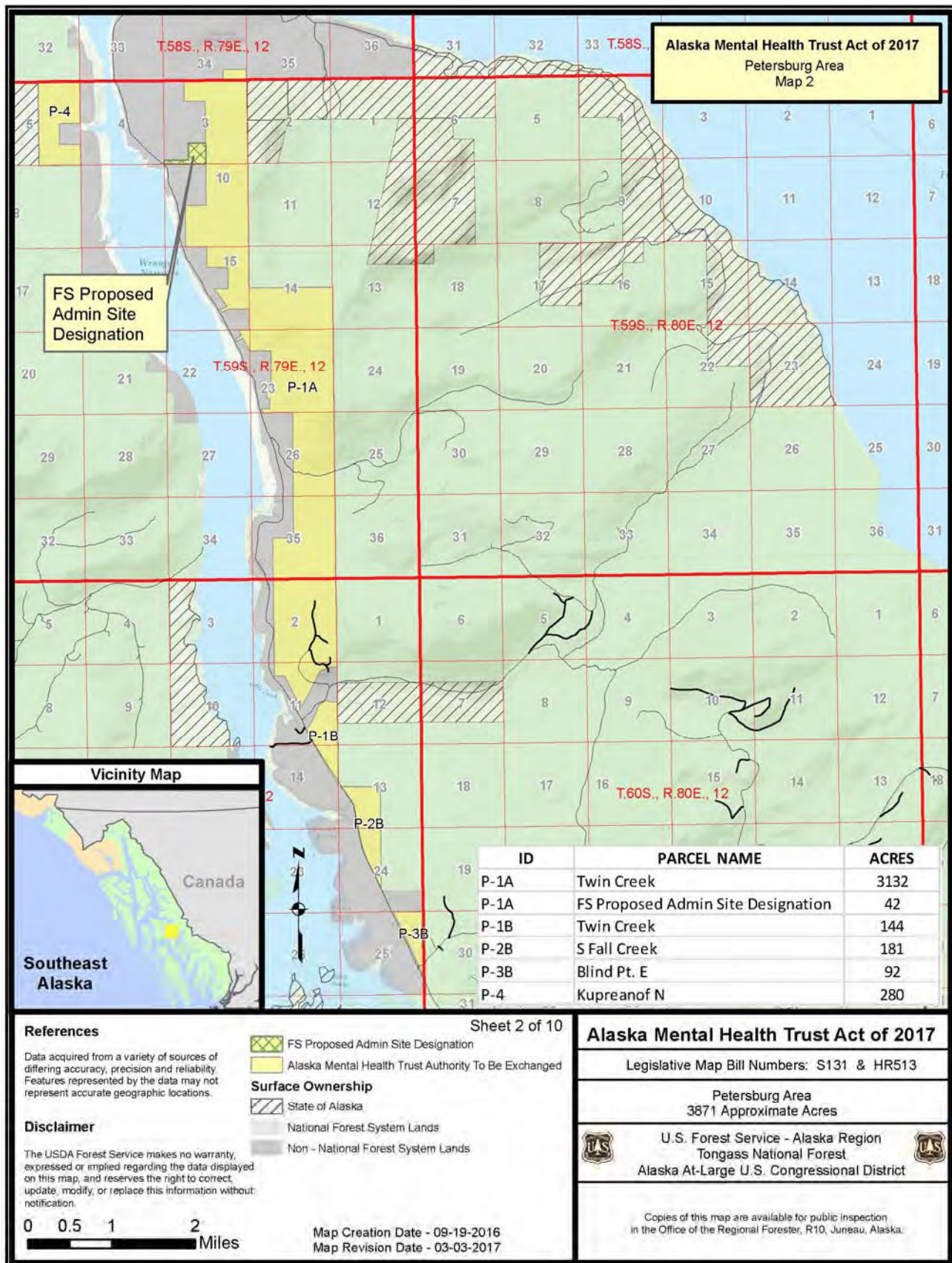
Applicable Authority: 22 Session Laws of Alaska 2017; The Alaska Mental Health Trust Land Exchange Act of 2017, Pub. L. No. 115-31, 131 Stat. 502; 38.05.801 11 AAC 99.

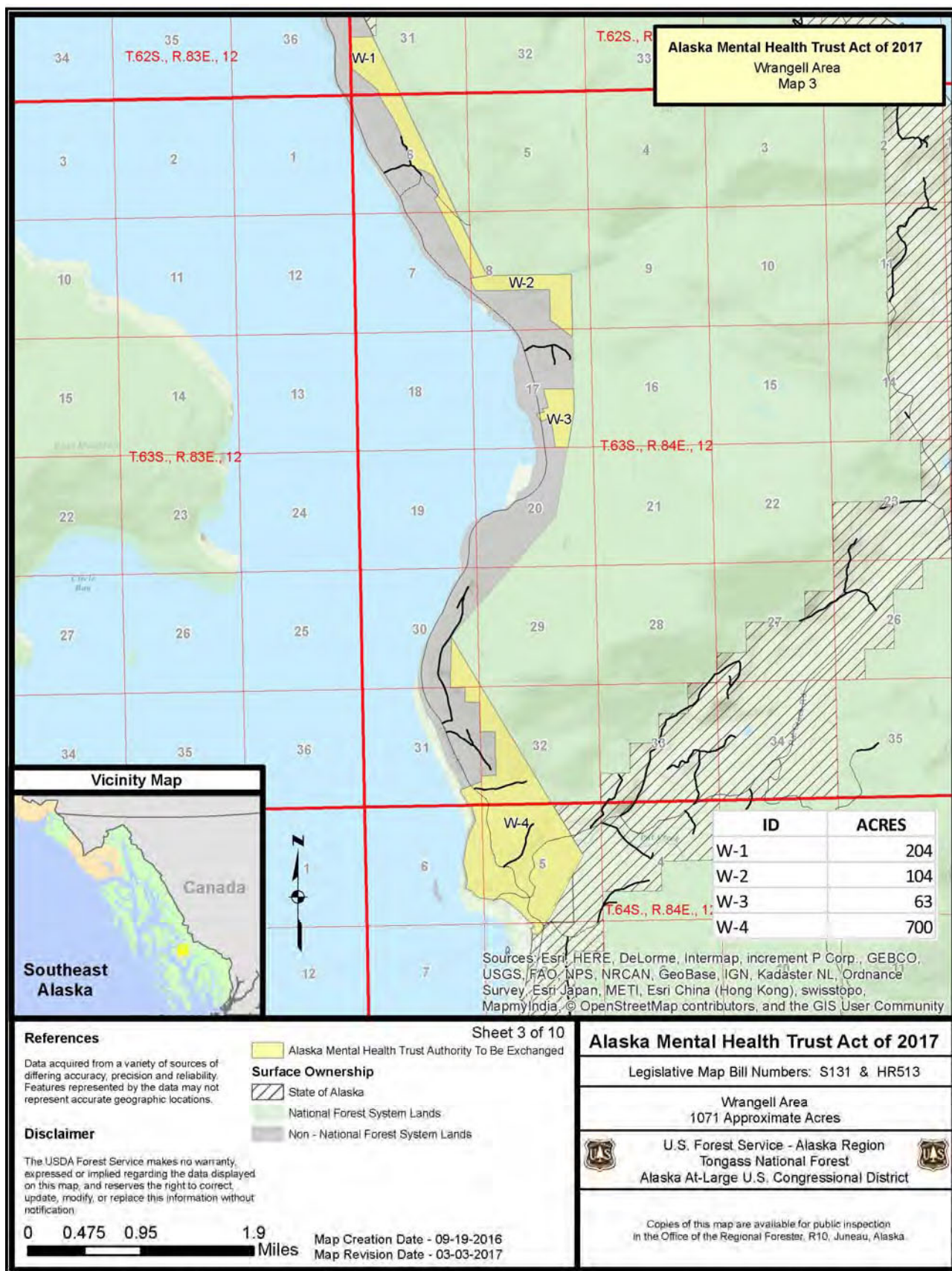
Trust Authority Consultation: This briefing document fulfills the consultation requirements that are applicable to the transaction. In the event that significant changes to the transaction are made necessary by the public notice process, the Trust Authority will be consulted regarding the changes.

Two additional steps are required by 22 SLA 17: The trustees must approve the exchange and then the chair of the board of trustees must notify the Alaska Lieutenant Governor of this approval. These two steps will be initiated and completed later this spring following the completion of the Best Interest Decision (BID) process.

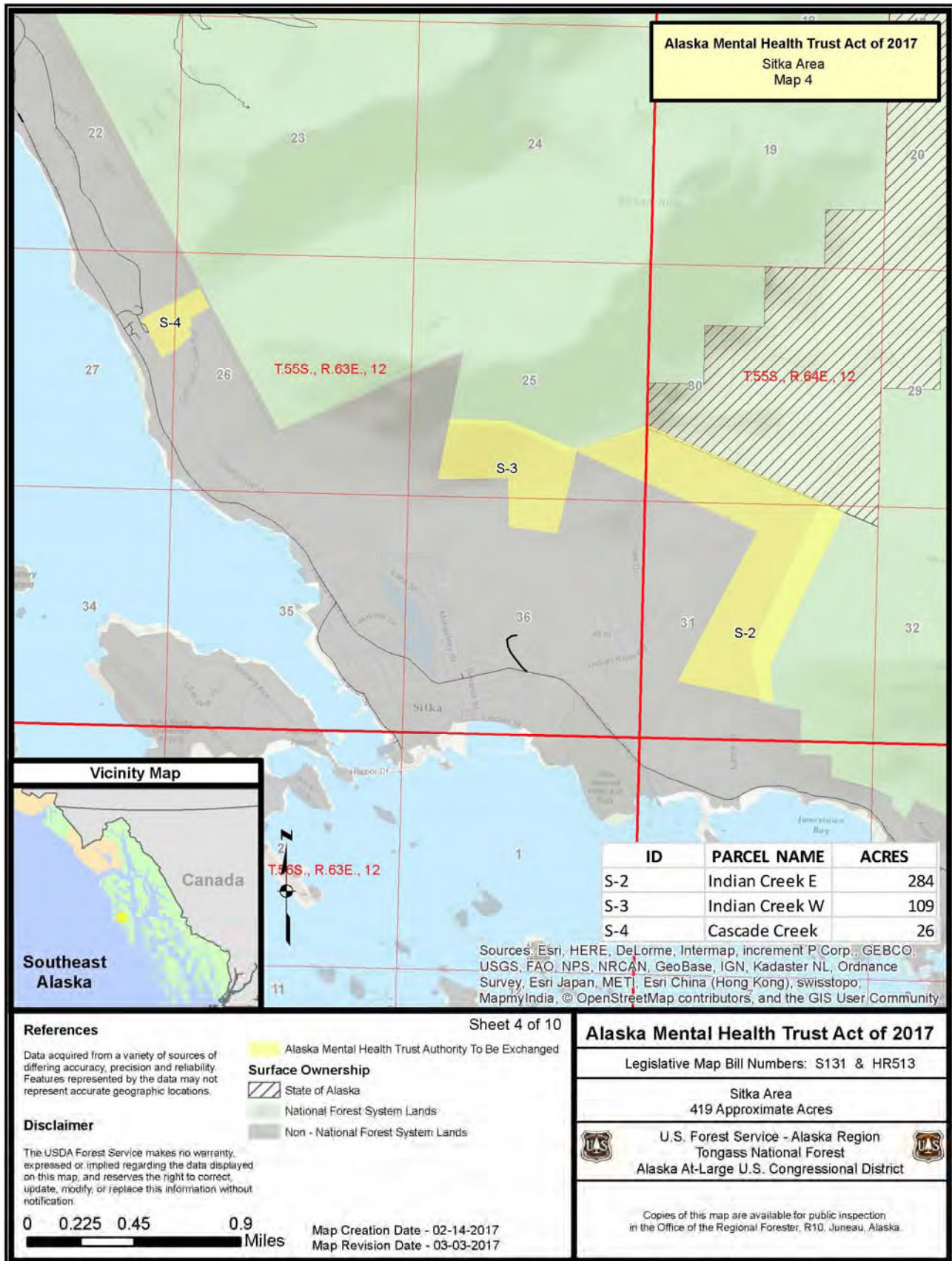
Exhibit(s) Map No. 1 to 10: S.131 Alaska Mental Health Land Exchange Act of 2017 including maps.

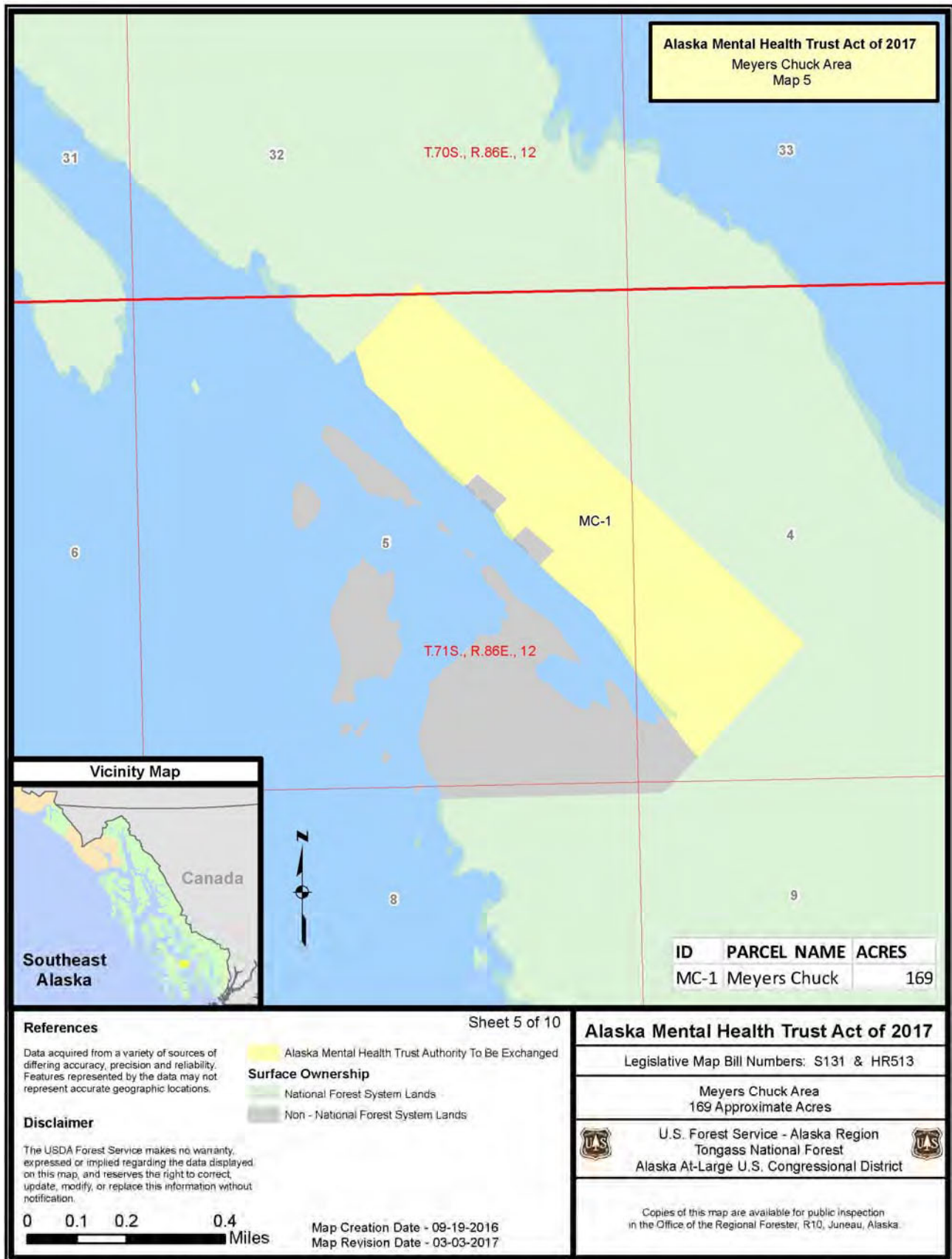


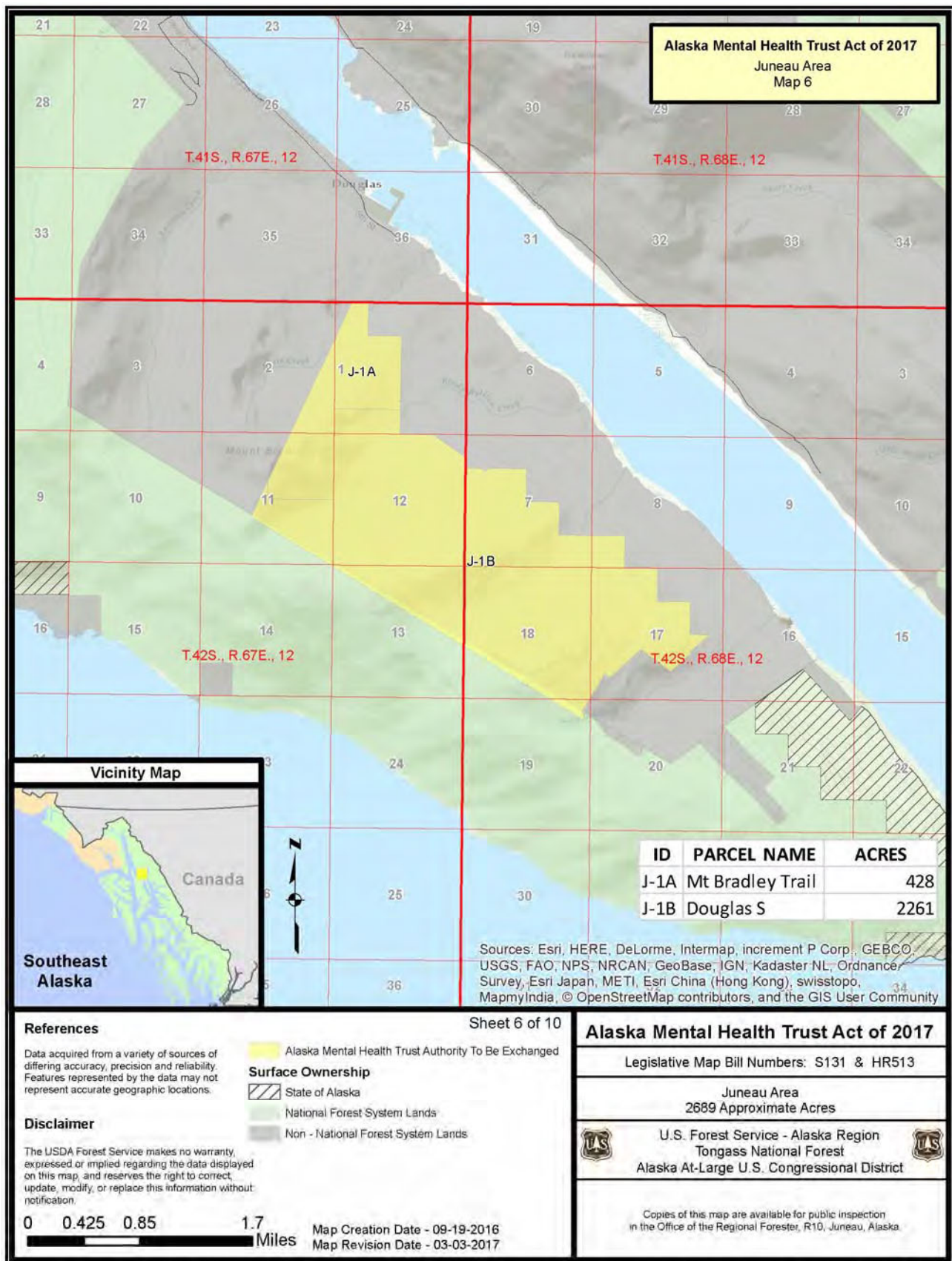


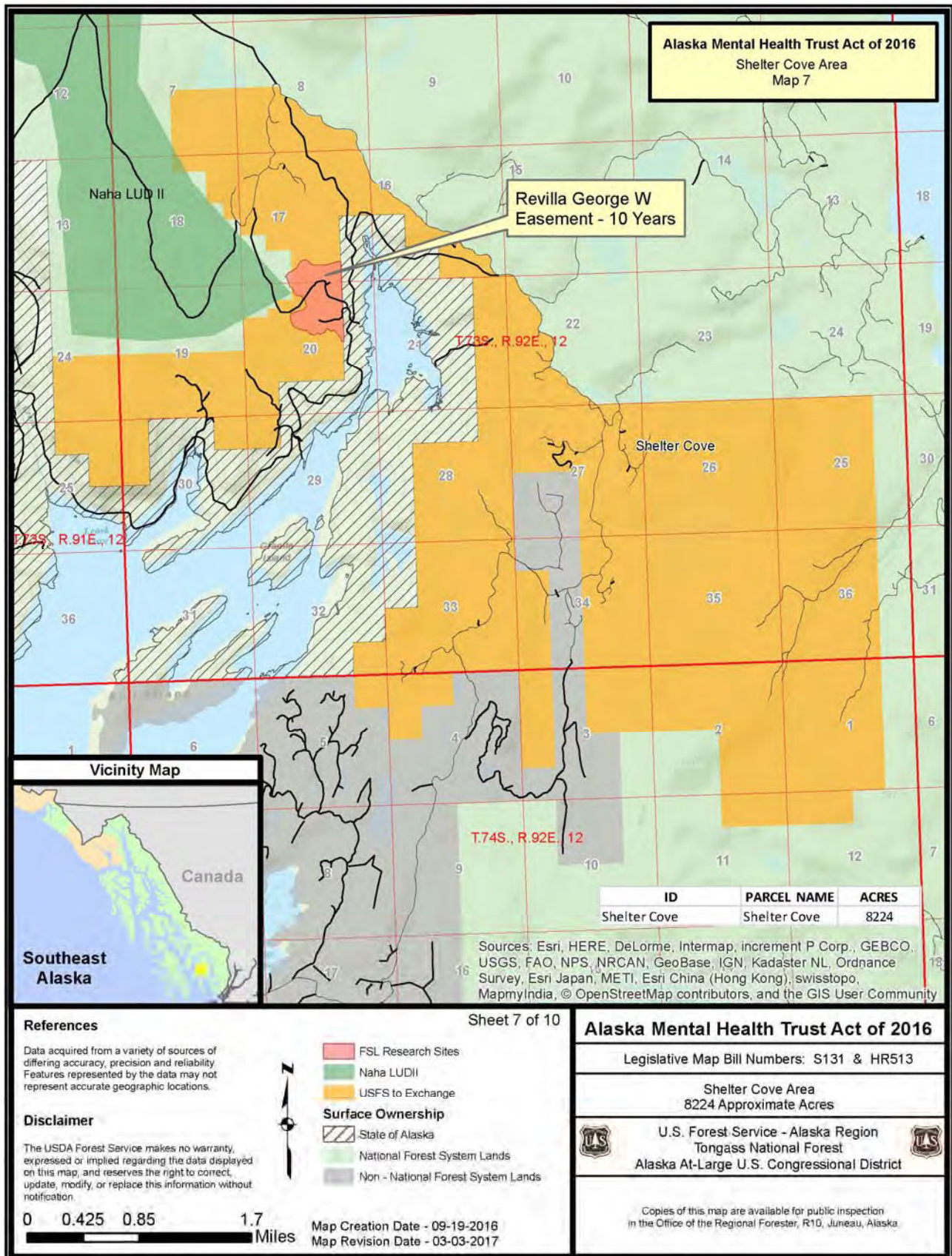


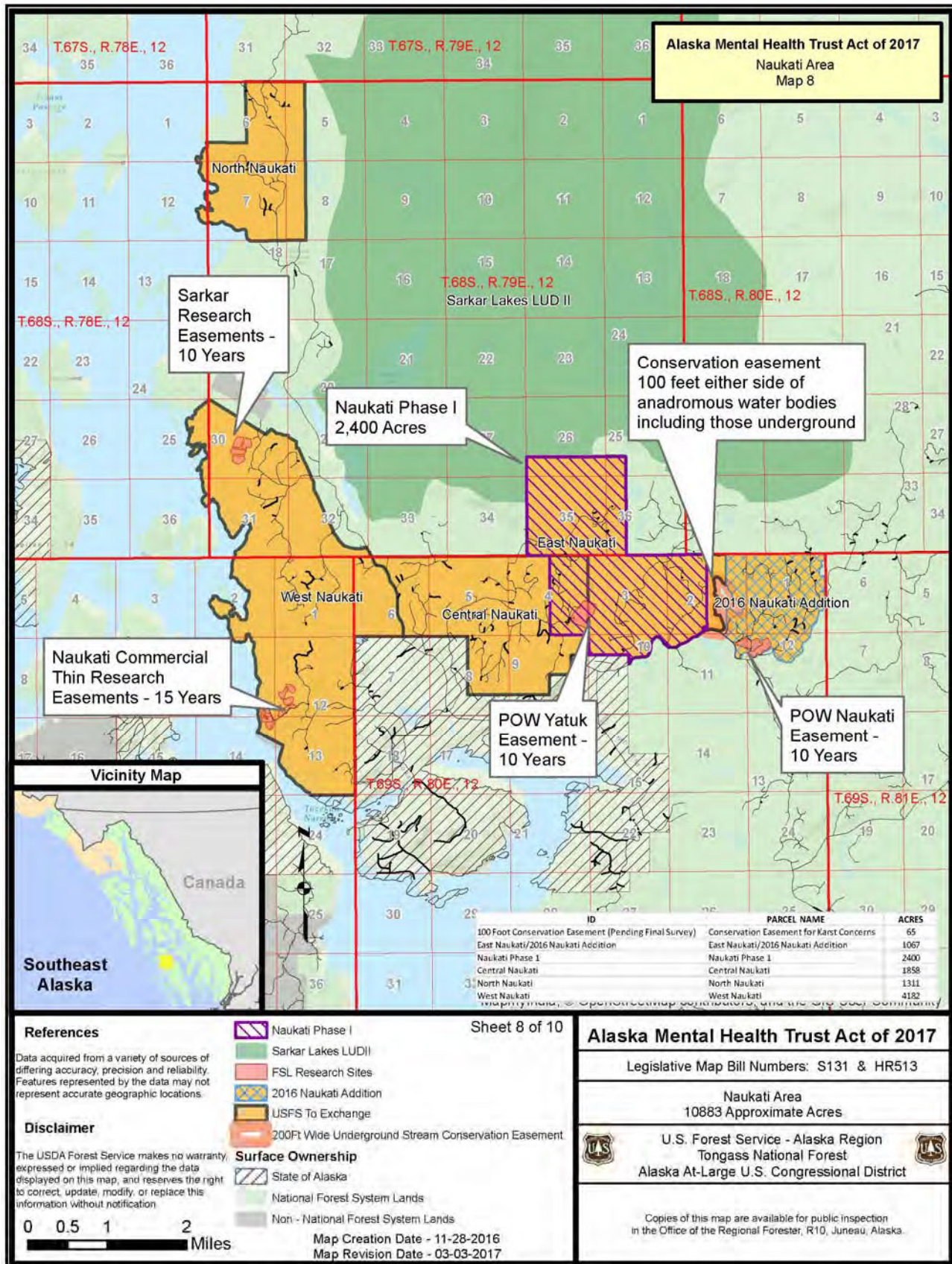
Data used in creation of this map are on file with the Supervisor's Office, Tongass National Forest, Ketchikan, AK. T:\FSWFS\Tongass\Program\6400Landownership\GIS\SO\AK\MentalHealthTrustAct\02016MentalHealthWrangell_LegislativeMap_POR (8.5x11).mxd

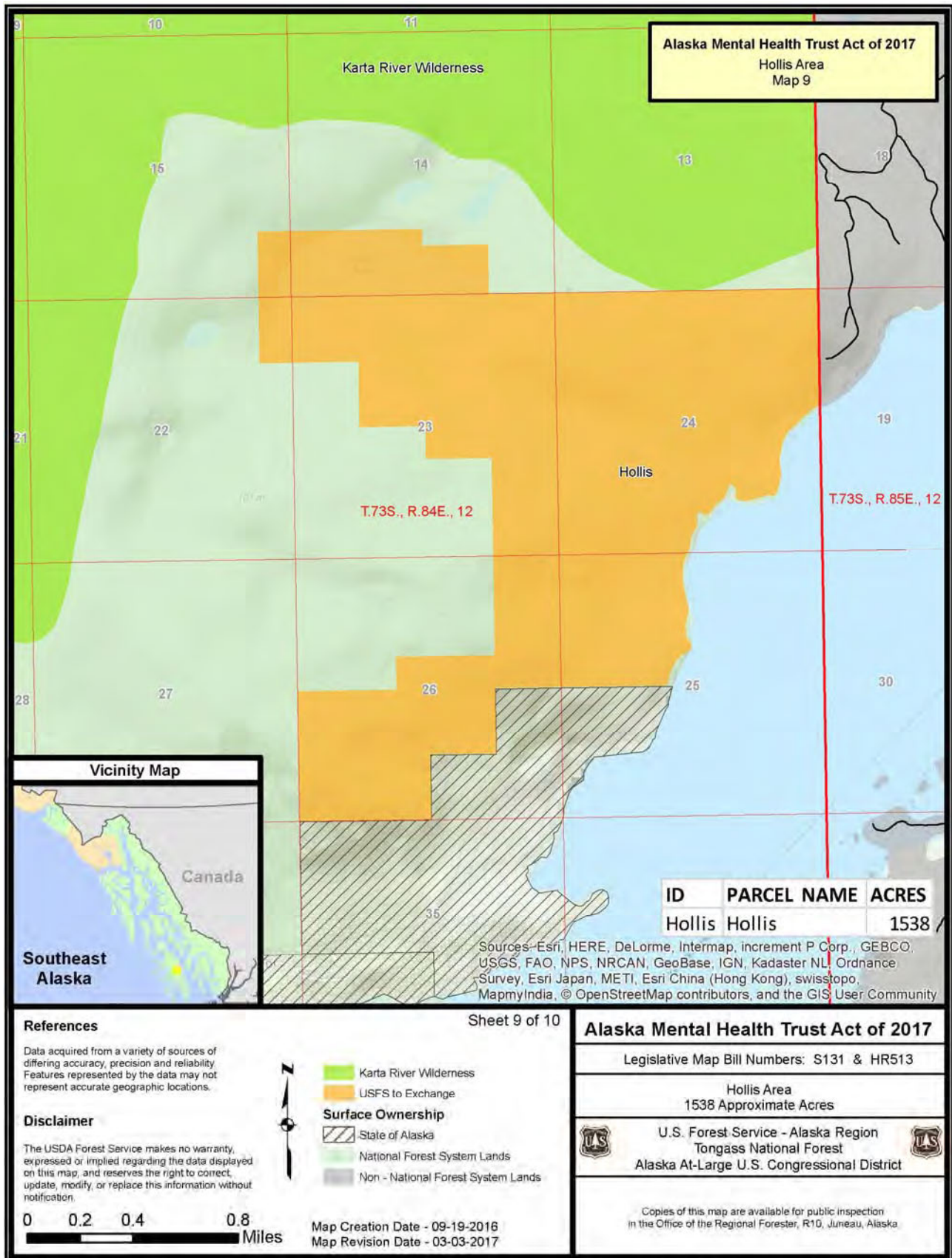


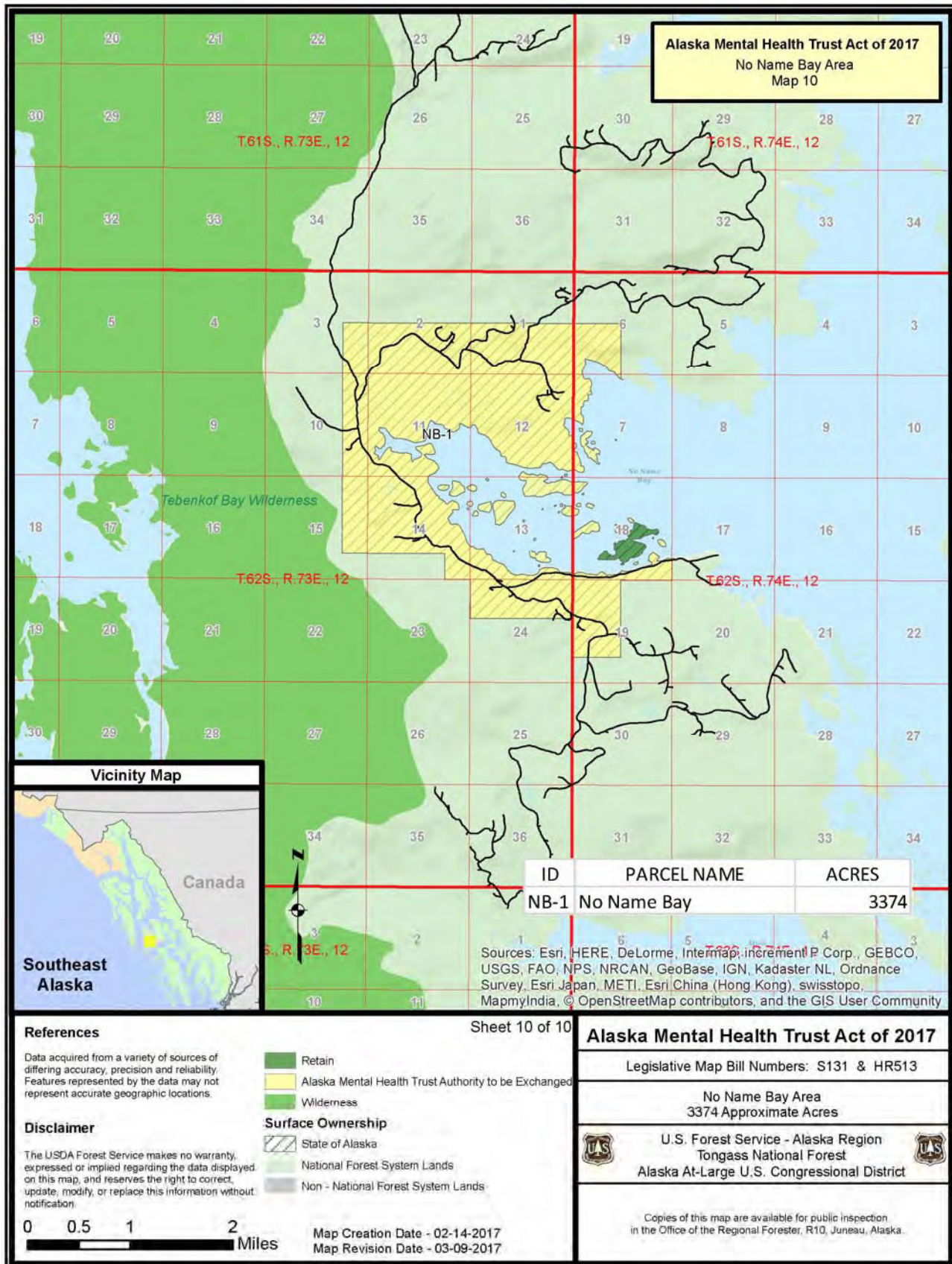












Item B



To: Carlton Smith, Chair
Resource Management Committee
From: David Griffin
Date: 1/4/2018
Re: MHT 9200688
Donlin Gold, LLC – Conservation Purchase
Fiscal Year: 2018

Consultation

Proposed RMC Motion:

"The Resource Management Committee recommends that the Alaska Mental Health Trust Authority board of trustees concurs with the Executive Director of the Trust Land Office's decision to dispose of a portion of Trust Parcels SM-7016; SM-7015; SM-1530-B01; SM-1505-A01; and, SM-1506-01, through the selling of a conservation easement, lease, deed restriction, restrictive covenant, or other conveyance or instrument restricting certain surface use activities for purposes of retaining or protecting wetland values of the Trust property."

Background:

Revenue Projections: The projected principal revenue will be based on a per acre fair market value derived from appraisal reports from similar land in the area that were conducted in 2016. Revenue projections for this sale are estimated to be approximately \$1.5 million.

Transaction/Resource: The proposed action is to grant or sell an easement or restriction to the surface estate as part of a mitigation plan specific to wetland conservation purposes.

Property Description/Acreage/MH Parcel(s): The subject property is located on the west side of Cook Inlet at point along and near the Chuitna River, in an area approximately 10 miles northwest of the village of Tyonek. The general area consists of land that is a mixture of lowland forests, wetlands, creeks, and small lakes (Exhibit A). The total acreage of the proposed conservation area is approximately 2,000 acres in size. Portions of Trust parcels SM-7016; SM-7015; SM-1530-B01; SM-1505-A01; and, SM-1506-01, are part of the proposed conservation area.

General Background: Donlin Gold, LLC contacted the Trust Land Office seeking to purchase an interest in the property as part of compensatory mitigation for impacts arising from certain permits or other authorizations issued by the Army Corps of Engineers, pursuant to Section 404 of the Clean Water Act.

Anticipated Revenues/Benefits: A conservation agreement between Donlin Gold, LLC and the Trust Land Office would generate revenue for the Trust on land that would otherwise not be developed due to the fact that the property consists of wetlands, and is located in a remote area far away from any developed access, and in an area, that would require significant access development costs, which would outweigh any positive financial returns. The revenue generated will exceed the fair market value for its surface value. The Trust would continue to own the property and the subsurface resources.

Anticipated Risks/Concerns: There are no significant risks or concerns associated with the project as long as the Trust is able to access its subsurface resources, and provide low impact authorizations for activities associated with recreation. The overall objective is to make the area off limits to any use that would negatively impact wetland values of the surface estate, therefore minor risks include the potential for impacts to the wetlands because of unauthorized trespass activities or motorized use. These risks will be mitigated through a conservation plan for the area, monitoring of the property through aerial flyovers, and by working with interested parties to ensure that the property is being protected as instructed in the conservation agreement.

Project Costs: The Trust will not be subject to any costs associated with the development of the proposed conservation area. Any costs required for the conservation area and conservation agreement, including but not limited to, surveys, mapping, fees, plans, long term monitoring, etc. will be the responsibility of the purchaser.

Other Considerations: The project area consists of a portion of a river corridor (Chuit River), and a large swath of wetlands. At present the Trust does not have any competing interests in the area. Although the Trust owns the subsurface rights on the subject properties, there are no current plans for any subsurface coal, oil, or gas development. Any agreement with the purchaser would require that the Trust maintain a reasonable level of access to the subsurface resources, as well as surface access to gain entry to those resources; the type of access may include roads, drill pads, and/or similar improvements.

Due Diligence: TLO staff has met with the applicant on numerous occasions during the fall of 2017. TLO staff have not performed any inspections of the parcel, but have intentions to do so to gain a better understanding of the existing conditions of the land. TLO staff have also worked cooperatively among the different asset teams to address concerns to identify any issues that could arise as the result of a conservation designation for the area, what any restrictions would look like, and how those restrictions might impact and/or affect future use of the property.

After consideration of the proposal by Donlin Gold, LLC, the TLO staff explored the highest and best use of the property and determined that a conservation agreement is suitable for the area, and that the proposal would generate significant revenues for the Trust on property that has little value since it consists of wetlands. The area currently has no competing uses, and will likely not have any

competing uses in the foreseeable future. The subject parcel will have a title report completed prior to issuance of any agreement, easement, or deed restriction. Preliminary agreement documents have been reviewed by the Attorney General's office; no separate independent review was required.

Alternatives: The only apparent alternative is to hold the parcel for sale competitively sometime in the future. This alternative is likely a moot point considering there is no developed access to the property, or any transportation facilities in the general vicinity, such as an airstrip or roads. There is little likelihood that these wetlands are suitable for any development projects. Geological surveys indicate that surface coal development is unlikely due to the depth of coal resources. Waiting for another project to come along would delay receipt of revenues from the agreement, and could result in additional costs and risks to the Trust without significant increases in value. Additionally, it is not expected that other individuals would be interested in purchasing and developing access to the properties.

Consistency with the Resource Management Strategy: The proposal is consistent with the "Resource Management Strategy for Trust Land" (RMS), which was adopted in March 2016 in consultation with the Trust and provides for the TLO to maximize return at prudent levels of risk, prevent liabilities, and convert nonperforming assets into performing assets. Experience has demonstrated that it is unlikely that this parcel will appreciate at a rate that would justify holding it for a later sale.

Trust Land Office Recommendation: The TLO recommends disposal of a portion of Trust Parcels SM-7016; SM-7015; SM-1530-B01; SM-1505-A01; and, SM-1506-01, through the sale of a conservation easement, lease, deed restriction, restrictive covenant, or other conveyance or instrument restricting certain surface use activities for purposes of retaining or protecting wetland values of the Trust property.

Applicable Authority: Alaska Statutes 34.17.060, 37.14.009(a), and 38.05.801, and 11 AAC 99 (key statutes and regulations applicable to Trust land management and disposal).

Trust Authority Consultation: This briefing document fulfills the consultation requirements that are applicable to the transaction. In the event that significant changes to the transaction are made necessary by the public notice process, the Trust Authority will be consulted regarding the changes.

Exhibit A: Proposed Wetlands Conservation Area

